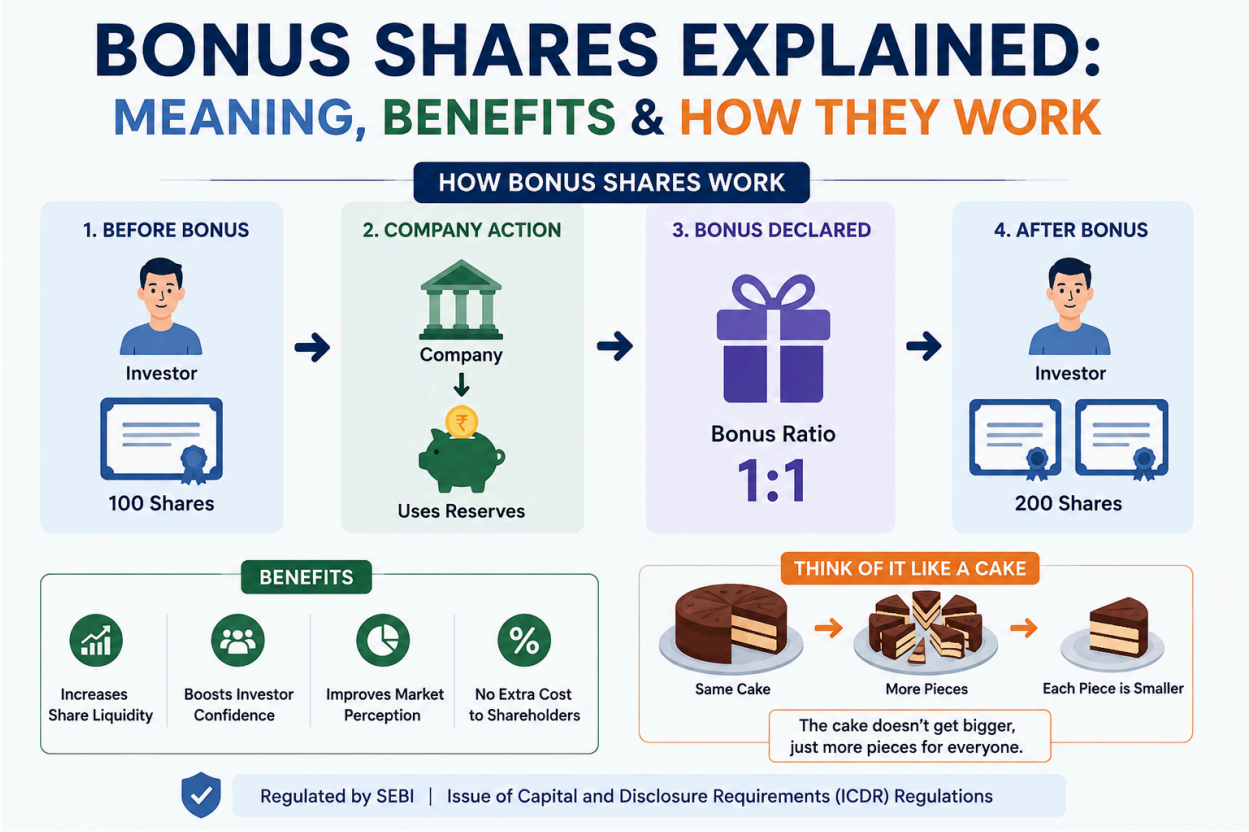
Bonus Shares Explained: Meaning, Benefits & How They Work

Bonus shares are additional shares given by a company to its existing shareholders **free of cost**, based on the number of shares they already own. Companies generally issue bonus shares by converting accumulated profits or eligible reserves into share capital.

What Are Bonus Shares?

A bonus issue allows existing shareholders to receive additional shares without making any additional payment.

For example, if a company announces a **1:1 bonus issue**, a shareholder holding 100 shares will receive 100 additional shares, increasing the total holding to 200 shares.



How Do Bonus Shares Work?

Bonus shares are issued in a specific ratio announced by the company. The important dates include the **record date**, which determines which shareholders are eligible for the bonus.

After the bonus issue, the number of shares increases, while the share price generally adjusts proportionately. Therefore, receiving bonus shares does not automatically increase the immediate overall value of an investor's holding.

Example:

Suppose you own 100 shares priced at ₹500 each.

- Investment value = ₹50,000
- Bonus ratio = 1:1
- New shares received = 100
- Total shares = 200
- Theoretical adjusted price = ₹250
- Approximate value = ₹50,000

The investor owns more shares, but the value immediately after the adjustment is broadly unchanged.

Benefits of Bonus Shares

1. Additional Shares at No Cost

Eligible shareholders receive extra shares without making a fresh investment.

2. Increased Shareholding

The number of shares in an investor's portfolio increases according to the bonus ratio.

3. Potentially Better Liquidity

A lower adjusted share price may make the stock more accessible to a wider range of investors and can support trading liquidity.

4. Reward for Existing Shareholders

Companies can use bonus issues as a way of rewarding existing shareholders while retaining cash within the business.

Bonus Shares vs Stock Split

Bonus shares and stock splits both increase the number of shares, but they work differently. In a bonus issue, additional shares are issued from eligible company reserves, while a stock split divides existing shares into smaller face-value units. The face value remains unchanged in a bonus issue but is reduced in a stock split.

Final Thoughts

Bonus shares can increase the number of shares held by investors without requiring additional payment. However, investors should remember that a bonus issue by itself does not create immediate wealth—the share price generally adjusts to reflect the increased number of shares.

Before making an investment decision, investors should evaluate the company's financial performance, business prospects, valuation and overall risk.

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